

CREDIT OPINION

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New Issue

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Contacts

Heather Guss 617-535-7693
 Analyst
 heather.guss@moody's.com

Geordie Thompson 212-553-0321
 VP-Sr Credit Officer
 geordie.thompson@moody's.com

Wellesley (Town of) MA

New Issue: Moody's Assigns Aaa to Wellesley, MA's \$5.6M GO Bonds; Outlook Stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the Town of Wellesley, MA's \$5.6 million General Obligation Municipal Purpose Loan of 2016 Bonds. Moody's maintains the Aaa rating on \$152 million of outstanding general obligation bonds. The outlook is stable.

The Aaa rating reflects the town's sizeable and wealthy suburban tax base, well-managed financial position with stable reserve levels, and history of voter approved overrides to the tax levy limitations of Proposition 2 ½. The rating also incorporates an above average but manageable debt burden and prudent funding of long-term liabilities.

Credit Strengths

- » Wealthy and diverse tax base with favorable location and institutional presence
- » Conservative fiscal management aided by formalized policies
- » History of strong voter support for debt exclusions and general overrides to Proposition 2 ½
- » Aggressive funding of OPEB liability

Credit Challenges

- » Rising costs of education and employee benefits
- » Reliance on voter approved general overrides and debt exclusions

Rating Outlook

The stable outlook reflects the town's conservative budgeting approach supported by formalized financial policies that are expected to support balanced operations over the near term. The outlook also incorporates the additional financial flexibility provided by the strong tax base with voter approved debt exclusions and general overrides to Proposition 2 ½.

Factors that Could Lead to a Downgrade

- » Trend of operating deficits resulting in a material decline in available reserves
- » Trend of increasing financial pressure due to unsuccessful votes for tax levy overrides or debt exclusions

» Material increase in the debt burden or pension liability

Key Indicators

Exhibit 1

Wellesley (Town of) MA	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 10,032,866	\$ 10,032,866	\$ 9,773,807	\$ 9,773,807	\$ 10,212,969
Full Value Per Capita	\$ 358,547	\$ 358,547	\$ 349,289	\$ 349,289	\$ 364,984
Median Family Income (% of US Median)	287.0%	287.0%	287.0%	287.0%	287.0%
Finances					
Operating Revenue (\$000)	\$ 131,296	\$ 135,901	\$ 140,705	\$ 145,017	\$ 147,799
Fund Balance as a % of Revenues	16.6%	16.0%	15.5%	15.4%	15.2%
Cash Balance as a % of Revenues	19.6%	21.3%	22.5%	19.9%	21.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 115,015	\$ 105,275	\$ 98,485	\$ 98,316	\$ 147,019
Net Direct Debt / Operating Revenues (x)	0.9x	0.8x	0.7x	0.7x	1.0x
Net Direct Debt / Full Value (%)	1.1%	1.0%	1.0%	1.0%	1.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	0.8x	1.0x	1.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	1.2%	1.5%	1.5%

As of fiscal year-end, June 30

Source: Moody's Investors Service

Recent Developments

Management reports that strong excise tax receipts and building permits, as well as favorable expenditure variances, will generate another operating surplus and add approximately \$1.5 million to General Fund balance. The fiscal 2017 budget was adopted with no material changes to the preliminary budget.

Detailed Rating Considerations

Economy and Tax Base: Sizeable and Affluent with Institutional Presence

The town is located 15 miles west of Boston (Aaa stable) and is home to both Wellesley College (Aa1 stable) and Babson College (A2 stable). The presence of the colleges along with Harvard Pilgrim Health Care (Baa3 stable) and Sun Life Assurance Company of Canada (Aa3 stable) provide stability to the diverse, suburban economy. The sizeable \$10.2 billion tax base will remain stable over the medium term given its very strong housing stock and primarily residential composition. The 2016 assessed value increased 3.7% from the prior year, bringing the five year average annual growth to 3.1%. New growth continues to average \$1.7 million per year due primarily to residential tear downs and renovations. The town is benefiting from a 25-unit condo development that has recently come online, with unit prices up to \$2 million each, and will add roughly \$50 million to the fiscal 2017 taxable value. New development includes another 36-unit apartment building, a small residential subdivision, and continued tear down and rebuilding of existing homes. Wealth levels are strong with median family income of over 2.5 times the national median and equalized value per capita of \$364,984. Unemployment remains very low at 2.9% (February 2016) compared to both the commonwealth (4.7%) and US (5.2%).

Financial Operations and Reserves: Stable Position Bolstered by Conservative Management and Taxpayer Support

The town will continue to maintain a stable financial position due to conservative fiscal management and continued taxpayer support from general overrides of Proposition 2 ½. The fiscal 2015 audited financials reflect a small operating surplus of \$153,000 attributable to positive variance in both revenues and expenditures. The surplus increased the available general fund balance (committed, assigned and unassigned) to \$22.5 million or 15.2% of revenues including transfers. Available reserves have been maintained at approximately 15% of revenues over the last five years and are expected to remain stable over the near term. The town's primary revenue source is property taxes (80% of revenues) with a strong 99% collection rate.

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The fiscal 2016 budget increased by 5% from the prior year, driven by education and employee benefits. The budget is balanced with a 4% tax increase and \$2.6 million free cash appropriation. Management reports that strong excise tax receipts and building permits, as well as favorable expenditure variances, will generate another operating surplus and add approximately \$1.5 million to General Fund balance.

The adopted 2017 budget includes a 4.25% increase in education costs and 3% for other town departments. Free cash of \$3 million was used to balance operations and the tax levy increased 2.7%. Future budget projections for fiscal 2018 and 2019 report budget gaps of \$4.5 million annually, representing around 3% of total revenues. The town has historically closed these budget gaps as the fiscal year budgets are refined. The town will continue to rely on taxpayer support of general overrides and debt exclusions to maintain its stable financial position and service levels.

LIQUIDITY

Cash and investments at the end of fiscal 2015 represented \$31.4 million or a healthy 21% of revenues including transfers.

Debt and Pensions: Manageable Debt Burden; Strong Commitment Towards Pension and OPEB

The direct debt burden of 1.4% of equalized value has increased since 2015 but remains manageable, given that most of the debt has been excluded from Proposition 2 ½ levy limits. The debt burden includes over \$90 million issued for school project. The 2017 five-year capital budget program totals \$173 million. The program averages \$6.5 million spent annually with available cash towards capital needs and \$132 million funded with debt, most of which is projected to be excluded. Annual debt issuance of around \$10 million is expected to continue. Additionally, the town is considering a large \$94 million capital project tied to elementary schools. The project is still preliminary but would materially increase the debt burden.

DEBT STRUCTURE

The entire debt portfolio is fixed rate, with 59% of principal retired in ten years. The fiscal 2015 debt service represented 8.2% of expenditures.

DEBT-RELATED DERIVATIVES

The town has no derivatives.

PENSIONS AND OPEB

The town participates in the Wellesley Contributory Retirement System, a single employer, defined benefit retirement plan. The town's annual required contribution (ARC) for the plan was \$6.3 million in fiscal 2015, or 4.2% of general fund expenditures. The town's 2015 three-year average adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$148.5 million, or a moderate 1.0 times general fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities. We determined the town's share of liability for the plan in proportion to its contributions to the plan. The town's funded date is currently 2030.

Since 2007, the town has aggressively contributed to its liability for other post-employment benefits (OPEB) by making at least the full ARC payment and additional contributions to an established OPEB trust. In fiscal 2015, the town contributed \$8.2 million, or 102% of the annual OPEB cost, plus additional contributions to the OPEB trust of \$3.5 million. Based on the June 30, 2014 valuation report, the funded ratio has reached 29.5% and a UAAL of \$78.3 million. The OPEB liability is expected to be funded by 2037. The current funding level is well above most local governments.

Total fixed costs in fiscal 2015 including debt service, required pension contributions and retiree healthcare payments, represented \$26.7 million, or a moderate 17.9% of expenditures.

Management and Governance

The management team has shown a long term trend of consistent and conservative fiscal management with multi-year capital and operating budgeting. In addition, the town has developed a long-term plan to address pension and OPEB liabilities.

Massachusetts towns have an institutional framework score of "Aa," or strong. Revenues are highly predictable due to a heavy reliance on property taxes. Towns have a moderate revenue-raising ability given the Proposition 2 ½ levy limit. Expenditures primarily consist of personnel costs, as well as education costs for cities that manage school operations, and are highly predictable given state-mandated

school spending guidelines and employee contracts. Towns have a moderate expenditure reduction ability given the high presence of collective bargaining contracts, offset by low fixed costs in most cases.

Legal Security

The majority of the bonds (\$5 million) are secured by the town's general obligation unlimited tax pledge as debt service has been excluded from the levy limits of Proposition 2 ½. The remaining \$575,000 is secured by a general obligation limited tax pledge as debt service has not been excluded from Proposition 2 ½.

Use of Proceeds

Bond proceeds will finance school, town, and Department of Public Works projects.

Obligor Profile

Wellesley is located 15 miles west of Boston (Aaa stable) with a population of 27,982. It is primarily residential in composition and is home to Wellesley College (Aa1 stable) and Babson College (A2 stable).

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Wellesley (Town of) MA

Issue	Rating
General Obligation Municipal Purpose Loan of 2016	Aaa
Rating Type	Underlying LT
Sale Amount	\$5,575,000
Expected Sale Date	05/26/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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Contacts

Heather Guss
Analyst
heather.guss@moodys.com 617-535-7693

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454